



MGI COMPANY POLICIES

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1 BUSINESS MODEL FOR MORVEN GLENNAVY IKAWAI IRRIGATION COMPANY LIMITED

An MGI-share equals an ownership portion of the Company and an entitlement to irrigate one hectare of farmland. A share is not an entitlement to a fixed volume of water.

The volume of water that is supplied to a shareholder in accordance with their share entitlement is determined by the irrigation method adopted by the shareholder and the soil moisture holding capacity of their farm soils. The Company will supply this volume of water in accordance with a Water Supply Agreement with the shareholder and it is also managed within the Farm Environmental Plan framework. The reliability of the supply will be nominated in the Water Supply Agreement. When a shareholder applies to change the method of irrigation, the volume of water supplied to the property and the annual operating charges are adjusted accordingly.

The shareholder will pay for the annual operating cost of the water in accordance with the Company's fee structure and this agreement will be recorded in the Water Supply Agreement. The Company operates on a cost recovery basis and does not seek to make a profit or provide a dividend to its shareholders, so the annual operating charges are budgeted to break-even with the estimated expenditure.

MGI is a co-operative company, so when a shareholder changes irrigation methods and reduces the volume of water that they require, like the change from borderdyke to spray irrigation for example, then the excess water is available to other shareholders. The Company is a responsible environmental operator and water will be left in the river if it is not required for irrigation purposes. Environmental leadership by the Company is important in order to maintain our resource consents and social licence to operate.

As water is freed up when existing shareholders convert to spray irrigation, the Company is able to grow by offering that water to new shareholders. The Company invests the new share capital in maintenance, improvements and growth and this investment reduces the water charges to all shareholders. Growth in the total number of shares held corresponds to growth in the irrigated area under the command area of the Company. Costs in the business are able to be kept at a minimum by spreading them out over a larger shareholder base.

If an existing shareholder wants to irrigate more land, then they must acquire further shares. This investment enables the Company to grow and to reduce the costs to all shareholders in a co-operative manner. If a shareholder wishes to irrigate more land with their existing allocation of water, then they may apply for spreading rights in their Water Supply Agreement. The right to spread the water over a larger adjacent area was formerly known as a B-share, the cost of a spreading right is 50% of the share price, it carries no additional voting rights because the number of shares held is unchanged, and it must utilise the shareholders existing infrastructure, meter and telemetry. The spreading right does not entitle the shareholder to any more water and it is a condition of the spreading right that the additional land is adjacent to the existing land, with a common boundary.

2 HEALTH AND SAFETY

Morven Glenavy Ikawai Irrigation Company Ltd (MGI) is committed to providing and maintaining an environment and system of work that is safe and without undue risk to workers and others. We will strive to protect workers from accidental harm and our property from accidental damage through consultation and a focus on continuous improvement.

It is our intention that people at all levels in our business shall be committed to achieving the highest standards of Health and Safety management throughout the organisation. To this end, all workers will be inducted to the MGI standard and it shall be reinforced to them that Health and Safety management is an integral part of our workplace and work practices. Workers will share in the benefits of maintaining a healthy and safe place of work. Maintaining safe working practices and reporting any unsafe acts or incidents shall demonstrate their commitment to safety.

Safety is everyone's responsibility. No one in this organisation should feel compelled to work unsafely.

We shall at all times ensure that:

- Hazard identification and control procedures are operating throughout the workplace to prevent personal injury.
- Consultation with worker representatives regarding Health and Safety management is valued and occurs regularly.
- All equipment is maintained in a serviceable state and any defect or fault reported immediately.
- All workers will be provided with the necessary support for the safe and structured return to work after an injury.
- All workers are provided with necessary instructions and adequate training.
- Personal protective equipment is provided as required and its safe use understood and encouraged.
- All practicable steps and precautions are taken to ensure the safety of our customers and other visitors.
- All operations in the workplace will comply with the applicable, relevant health and safety statutory requirements.
- A comprehensive and up-to-date plan for all emergencies is in place.

Individual workers will meet their obligations to take all practicable steps to ensure their own and others health and safety, and are encouraged to become actively involved in assisting management achieve a healthy and safe workplace.

{Note - Policy from MGI Health & Safety Management Plan}

3 ENVIRONMENT

3.1 SUSTAINABILITY POLICY

The objective of MGI is to create sustainable value for its shareholders, employees, contractors, suppliers, business partners and local communities. MGI will strive to be leaders in sustainable irrigation performance in New Zealand. MGI will develop, implement and maintain systems for sustainable management to drive continual improvement and ensure that it will:

- Meet or, where less stringent than scheme standards, exceed applicable legal requirements;
- Understand, uphold and respect cultural heritage, in particular respecting the Ngai Tahu values in relation to water, the natural environment and other taonga;
- Promote efficient use of natural resources; including reducing and preventing pollution;
- Enhance biodiversity protection by assessing and considering ecological values and land use aspects;
- Engage regularly, openly and honestly with people affected by the scheme operations and take their views into account in decision making;
- Develop partnerships that foster sustainability in the local communities and enhance economic benefits;
- Regularly review scheme performance and report to shareholders, Canterbury Regional Council and others.

For MGI sustainability is about ensuring that the scheme is viable and contributes lasting benefits to society through consideration of social, environmental, ethical and economic aspects in all that it does.

{Note - Policy from MGI Environmental Strategy}

3.2 COSTS OF FARM ENVIRONMENTAL PLANS

MGI will meet the costs to develop, review and audit Farm Environmental Plans on behalf of shareholders. The shareholder is responsible for implementing the Plan.

3.2.1 Frequency of FEP Audits

All new first-time irrigation shall require an FEP and will be audited in the next audit round in accordance with consents and the Environmental Management System. When there are changes in farm ownership or farm management, or the farming system (e.g.; conversion to dairy) the FEP shall be revised if necessary and will be included in the next audit round at the discretion of the Environmental Manager. The Environmental Manager shall give consideration to the following matters when determining whether the FEP should enter the next audit round:

- Whether the new owner or Farm Manager is an existing MGI shareholder or manager;
- The environmental risks associated with the farming system and/or property
- The extent that the farming system or irrigation system has changed, as a proportion of the total farm area.

3.2.2 Repeated Failures of Audits

If a shareholder does not take reasonable steps to improve so that they fail to pass an audit for two consecutive occasions, then the costs to remedy and audit the Plan on the next occasion will be fully recovered from the shareholder involved including MGI labour time.

3.2.3 Changes of Farm Manager

For the purposes of this policy, the Farm Manager is the person responsible for the day to day management of the property, as nominated in the MGI shareholder database. It is expected that this person is also the FEP Implementer. This policy does not apply to subordinate staff and employees, MGI holds the Farm Manager responsible for compliance with the FEP.

If a shareholder changes the Farm Manager in two or more consecutive seasons so that a new farm audit is required, then the actual audit costs may be fully recovered from the shareholder at the discretion of the General Manager.

If the new Farm Manager attends the INZ Irrigation Manager course then a rebate of \$150 may be applied to the audit costs, unless the Farm Manager has already attended a course in the last 3-years then no rebate is applicable.

3.2.4 Additional FEP Blocks

Additional blocks may be added to an existing Farm Environment Plan provided they meet the following criteria:

- a) The block to be added on is within the boundary of the South Canterbury Coastal Streams Zone, Waikakahi zone; or the Valley and Tributaries zone west to Kurow and north of the Waitaki River;
- b) The block has a direct 'management' relationship with an existing MGI Farm Environment Plan;
- c) The block must be owned by the Shareholder;
- d) Where the additional block is a run-off block that services more than one MGI property and is managed by a different manager, a separate FEP will be created for this property (FEP 300 series). The internal cost of the FEP and the cost of the farm audit will be fully recovered by MGI;
- e) Priority will be given to adding blocks attached to farms that are being audited in the current year.

Notwithstanding the above criteria, additional blocks will be considered on a case by case basis and at the discretion of the Environmental Manager.

Additional blocks will be subject to all management requirements/standards of the Farm Environment Plan and will be included in the Farm Environment Plan audit.

Additional blocks may be removed from the Farm Environment Plan by MGI should there be issues with compliance, auditing or Regional Council requirements.

3.2.5 Dairy Effluent Management

The dairy farms with effluent storage and discharge facilities in the MGI scheme are required to obtain and hold an Effluent Warrant of Fitness (mandatory requirement). The costs of the effluent WOF shall be borne by the farmer. The Effluent Warrant of Fitness (when all aspects are passed) covers a period of three years. If a farm is audited more than once during the three-year period covered by the Effluent Warrant of Fitness, the farmer need not obtain a new one. If a farm changes manager during the three-year period, it will be up to the discretion of the Environmental Manager to determine whether or not a new Warrant of Fitness is required. The status of the Effluent Warrant of Fitness for a dairy farm will be assessed within the 12 month period prior to the farm being audited; so that where necessary the Effluent Warrant of Fitness can be completed at least six months prior to the audit. The farmer is responsible for their own compliance with any privately held effluent discharge permit including any reporting conditions to Environmental Canterbury.

MGI will advise the farmer about dairy effluent issues and ensure that it is incorporated into the Farm Environment Plan; but the farmer is responsible for the maintenance of the effluent system and compliance with their own resource consents.

If a farm obtains a new effluent discharge permit and it triggers an FEP audit, then the costs of the FEP audit shall be charged to the farmer unless the audit coincides with the planned MGI audit cycle.

4 FINANCE

4.1 ANNUAL BUDGETING

MGI shall perform its annual budgeting process on a break-even (not for profit) basis using the Income and Expenditure report and the incremental method of forecasting. The Directors may consider a 1, 2 or 3-year budget forecast when considering the required level of income to break-even.

4.2 PAYMENT ARREARS BY SHAREHOLDER

MGI shall add penalty rates and administration charges in circumstances where the shareholder has fallen into arrears, at the discretion of the General Manager. After a period of 3-months of arrears, the Board shall be informed.

MGI may discontinue the supply of water to the shareholder if payment remains outstanding.

4.3 TRANSPOWER DEMAND RESPONSE PROGRAM

Waihao Downs Irrigation is a participant in the Transpower Demand Response Program (DRP) where we can accept offers to temporarily suspend pumping at the Baylyn Pump Shed in order to reduce electricity demand. Transpower run an auction system where participants may be compensated by \$500 to \$1,500 per MWh to suspend power consumption.

MGI will only participate in DRP events when there is sufficient water storage in Harrison's Pond to avoid disruption to irrigation.

In terms of the income that is generated from the Transpower DRP events, it is Company policy that:

- 100% of the Transpower DRP income shall be applied as a credit to water users electricity charges. The credit shall be applied during the month that it is received, or at the next electricity recovery invoice, whichever occurs first.
- If the Transpower DRP income exceeds the value of the electricity charges, the surplus shall be recognised as WDI income.

4.4 COSTS OF OPERATING PUMP STATIONS

MGI operates pump stations at locations such as the Green Shed and for Waihao Downs Irrigation (Baylyn Pump Station). The pump stations supply pressurised water to particular areas of the scheme and the costs of operating and maintaining the pumps shall be recovered from only those shareholders that obtain the benefit of the water supply.

Pump station costs that will be recovered from the affected shareholders include:

- Pump insurance (material damage and machinery breakdown)
- Pump maintenance
- Finance costs

- Electricity costs

Fixed costs shall be recovered proportional to the area of shareholding, whether or not a farm has used any water during the month.

Variable costs such as electricity usage shall be recovered based on metered water usage for the month. Under the Water Supply Agreement, farmers are responsible for maintaining their own water meters, unless a meter is not required under the Small Users Policy. In circumstances where actual metered water use data is not available for a farm, then the cost recovery shall be based on estimated water use for the month.

5 WATER APPLICATION
5.1 APPLICATION RATE

The volume of water that may be applied by a shareholder is determined from the soil type, irrigation method, topography and resource consent conditions.

The basis of the application rate is:

	Borderdyke 17d	Borderdyke 14d	Spray 4mm	Spray 5mm
Seasonal Depth (mm)	810	1000	610	770
L/s/ha	--	--	0.45	0.58
Mm/day	--	--	3.9	5.0
Watering's	8	10	157	154
Seasonal Allocation ¹ (m3/ha/year)	8,100	10,000	6,100	7,700

Notes:

1) Extra water over and the above the seasonal allocation can be supplied at additional cost, subject to our consented annual allocation of water.

5.2 EFFICIENCY AND WASTAGE

Shareholders must ensure that they are using the water in the most efficient and environmentally sustainable manner possible, and avoiding or minimising wastage. This will be monitored and controlled by MGI via the Farm Environmental Plan process.

Spray irrigation water shall be drawn directly from the water supply race system. Free flow into a pond requires prior agreement from MGI.

Borderdyke flows and durations shall be managed to avoid losses of water beyond the farm boundary and the flooding of neighbouring land is not allowed.

Ponds should be lined to avoid leakage.

5.3 SPREADING RIGHTS

Existing shareholders may apply to irrigate their existing allocation of water over a larger area of land at a lower application rate, a spreading right is subject to the discretion of the Board and the payment of once off capital charge. The additional land must be owned by the shareholder and immediately adjacent to the existing irrigated land.

Spreading rights will not be granted for the Waihao Downs Irrigation area and are generally more suited for the area of the scheme north of the Waihao River.

Example of a Spreading Right

Joe has 100 shares for spray irrigation at the 4mm/day application rate (0.45 L/s/ha). Joe is entitled to apply up to 45 L/s of water and 610,000 m³ per year (per 180-day season). Joe applies for spreading rights to irrigate an additional 50 hectares of adjacent land. The Board decide to grant Joe the spreading right and a condition is introduced in his Water Supply Agreement.

Joe now irrigates 150 hectares of land with his shared entitlement of 45 L/s, which corresponds to a lower overall application rate of 0.30 L/s/ha.

5.4 DRAINAGE

MGI recognises that it must avoid, remedy or mitigate any adverse effects on the environment resulting from its activities. In areas where leakage from MGI infrastructure raises the water-table and causes increased drainage flows, MGI will perform drain maintenance works and meet 50% of the costs along with the affected landowner.

This policy is conditional upon:

- The drainage work is performed by MGI in agreement with the landowner(s);
- MGI has a direct effect on the drain, such as from leakage from MGI infrastructure;
- Runoff and drainage problems from poor irrigation practices are excluded from this policy and are the responsibility of the shareholder involved.

In circumstances where MGI must step-in to resolve drainage problems arising from poor irrigation practices, then all costs will be recovered from the shareholder.

6 MONITORING AND TELEMETRY

6.1 SPRAY IRRIGATION

All spray irrigation in the MGI command area must include an approved digital flow meter installed at the shareholders cost, unless Policy 2.2 applies. Shareholders are required to maintain or replace the water meter so that it remains in full working order, this includes a 5-yearly service calibration.

With the exception of small users under Policy 6.3, spray irrigators are required to individually meter their total water use and meters shall not be combined with those of other shareholders.

MGI shall install, at the Company's cost, a telemetry system in order to report water usage recorded by the meter.

6.2 BORDER DYKE IRRIGATION

Border-dyke turnouts are engineered structures designed to release a known rate of water flow. The shareholder shall record the duration of the irrigation event and report those records to MGI at the end of each watering. Reporting may be performed via the MGI website.

6.3 SMALL USER POLICY

Small users with an irrigation rate less than 5 litres/second are not required to install a water meter and MGI shall not install telemetry.

If the small user is in the Northern Extension or Waihao Downs area, then MGI shall estimate their share of pumping and electricity costs based on 50% of their allocated water use.

7 INFRASTRUCTURE

7.1 CONTRIBUTION TO INFRASTRUCTURE

The Company will consider a financial contribution where a shareholder wants to upgrade a supply race system, like the conversion of an open channel race to a pipeline for example, equivalent to the average 10-year maintenance cost of:

- \$28,000 per kilometre for existing races that are in good working order; and
- Up to 20% higher contribution for existing races that have leakage problems.

This policy is conditional upon:

- a) That the proposed upgrade offers improved water efficiency, by reducing leakage or wastage.
- b) Prior approval must be obtained from MGI to agree the financial contribution and prior to the work being performed.

7.2 REINSTATEMENT OF RACES

Where an irrigation supply race is no longer required, MGI shall reinstate the race and remove any concrete or structural material and relinquish any easements that may apply. The area shall be re-profiled to the surrounding contour provided that sufficient material is available and the land can be returned to agricultural use. MGI will not:

- Import additional backfill material;
- Reinstall topsoil and establish vegetation (this is the landowner's responsibility).

8 MANAGEMENT REVIEW

This Policy Document shall be updated on an as-required basis and is subject to an annual management review in July of every year.

WAIHAO DOWNS ENVIRONMENT MANAGEMENT FUND

Date of Policy: 29 January 2016

Purpose

Condition 13) l) ii) of the Waihao Downs resource consent CRC040428 to take water from the Waitaki River specifies that the consent holder must establish and administer a Scheme Environment Management Fund. This policy document sets out the framework for MGI's management of the Fund.

The Scheme Environmental Management Fund is to be used by the consent holder to fund, firstly, environmental mitigation required as a result of the effects of the operation of the irrigation Scheme which is not otherwise required by the individual Farm Management Plan or specific consent conditions and, secondly, other environmental management projects within the area affected by the operation of the Scheme.

PROCEDURE FOR APPLICATIONS TO THE FUND

- Applications for funding shall close by the 31st day of May each calendar year (beginning May 2017).
- Applications must be made using the prescribed form and must comply with the funding criteria below:

Funding Criteria

Priority, for the distribution and use of the Fund shall be provided to environmental mitigation projects that are not otherwise required by the individual Farm Management Plans or specific consent conditions. Applications for funding shall be for the following types of projects:

- a. Physical protection of, stock exclusion from, and indigenous vegetation planting along riparian margins of rivers and streams;
- b. Wetland enhancement and wetland creation, including the development of wetlands along intermittent streams;
- c. Permanent protection of wetland areas that could contain mudfish.
- d. Reduction or mitigation of hill country erosion and sediment runoff, provided that the intended use of the land involved is not for agricultural purposes.
- e. Projects for the enhancement of farmers own properties, that are not directly covered by Farm Environmental Management Plan requirements, may be eligible for up to 50% levy rebate provided that the project can demonstrate environmental benefits.

- Applications shall be assessed by the Waihao Downs Environment Management Fund Selection Committee, who will make a recommendation to the June meeting of the MGI Board of Directors to approve the expenditure against the Fund.

- The Fund will consider applications for up to 100% funding and it will consider joint funding and collaborative proposals.
- Farm labour costs will generally not be funded.
- Fencing costs will generally not be funded, unless special circumstances apply.
- The cost per plant is \$5.00 which includes plant purchase, growing media, planting, and protective enclosure.

Fund Administration

The Fund will be administered by the consent holder, Morven Glenavy Ikawai Irrigation Company Limited ("MGI"), the 100% owner of Waihao Downs Irrigation.

- (i) The Environmental Manager of MGI is the person responsible for the management of applications, monitoring and reporting.
- (ii) The Scheme Environment Management Fund Selection Committee shall work with the Environmental Manager to assess applications and make recommendations to the Board. The Selection Committee shall comprise members from MGI, Te Runanga o Waihao and other stakeholders from the community.
- (iii) The final approval of applications and the disbursement of funds is at the discretion of the Board of Directors of MGI.
- (iv) The funds shall be managed in trust in the accounts of the Morven Glenavy Ikawai Irrigation Company.
- (v) The shareholders from the Waihao Downs Scheme shall contribute an initial levy of \$2 per hectare of irrigated land. The levy shall be collected along with MGI's water fees. The Board may consider increasing the levy each year during its regular budget planning cycle. The Board shall take into account changes in the Consumer Price Index and the significance of the projects for which funding applications are being received when considering increases to the levy.
- (vi) Under project criteria (e), a water user may apply for up to a 50% rebate of their levy paid in any one year to cover the capital costs of environmental enhancement work on their own properties, which is not otherwise required by their Farm Management Plan or the consent conditions. To be eligible for the rebate, the project must satisfy one or more of the project criteria.
- (vii) If no applications to the Fund are received by 31 May each year, then the levies shall continue to accrue until an eligible application is received.
- (viii) The call for applications shall be advertised on the MGI website, in the Companies newsletters and by word of mouth.